



THE COMMONWEALTH OF MASSACHUSETTS
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SENT ELECTRONICALLY, BY FAX AND MAIL

December 17, 2002

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

**Re: Boston Edison Company, Cambridge Electric Light Company and
Commonwealth Electric Company, D.T.E. 02-80**

Dear Secretary Cottrell:

On December 5, 2002, pursuant to G.L. c. 164, § 1A(a), 220 C.M.R. § 11.03(4), the Restructuring Settlement approved in *Boston Edison Company*, D.P.U./D.T.E. 96-23 (1997), and the Restructuring Plan approved by the Department of Telecommunication and Energy ("Department") in *Cambridge Electric Light Company/Commonwealth Electric Company*, D.P.U./D.T.E.97-111 (1998) Boston Edison Company ("BECo"), Cambridge Electric Light Company ("CELCo") and Commonwealth Electric Company ("CEC") (together the "Companies") filed with the Department their 2002 reconciliation filing. The filing incorporates several rate change proposals to be effective on January 1, 2003.

BECo seeks approval of rates that will increase its average standard offer service rates by \$0.00277/kWh. Exh. BEC-HCL-5. The Company proposes the following changes:

- the transition charge increases from \$0.01628 to \$0.01840/kWh;
- the average transmission charge increases from \$0.00661 to \$0.00751/kWh; and
- the renewable energy charge decreases from \$0.00075 to \$0.00050/kWh.

The Company proposes to maintain the current Standard Offer rate of \$0.0495/kWh and does not

seek to implement either a standard offer or default service adjustment factor.

CELCo seeks approval of rates that will increase its average standard offer service rates by \$0.00343/kWh. Exh. CAM-HCL-5. The Company proposes the following changes:

- the Standard Offer rate increases from \$0.042 to \$0.047/kWh¹;
- the transition charge decreases from \$0.01139 to \$0.00200/kWh;
- the average transmission charge increases from \$0.01079 to \$0.01976/kWh;
- the default service adjustment decreases from \$0.00250 to \$0.00160/kWh; and
- the renewable energy charge decreases from \$0.00075 to \$0.00050/kWh.

CEC seeks approval of rates that will increase its average standard offer service rates by \$0.00247/kWh. Exh. CAM-HCL-5. The Company proposes the following changes:

- the Standard Offer rate increases from \$0.042 to \$0.047/kWh¹;
- the transition charge decreases from \$0.03030 to \$0.02749/kWh;
- the average transmission charge increases from \$0.00464 to \$0.0517/kWh; and
- the renewable energy charge decreases from \$0.00075 to \$0.00050/kWh.

On December 10, 2002 the Department issued a Notice of the Filing and Request For Comments. Pursuant to that notice, the Attorney General submits this letter as his Initial Comments concerning the filing made by the Companies. Consistent with Department precedent, the Attorney General requests that the Department initiate a formal investigation into the reconciliation filings.

As part of the 2002 Standard Offer reconciliation, all three Companies have adopted transfer pricing schemes that sell purchased power entitlements to Standard Offer customers at rates which, when combined with short-term purchases, result in no standard offer cost deferrals. Testimony of Rose Ann Pelletier, Exh. NSTAR-RAP, p. 4. During 2002 the Companies procured 100% of the Standard Offer requirements for BECo and 62.4% of the Standard Offer requirements for CELCo and CEC from an wholesale marketer, Constellation Power Supply Source. Response to discovery, AG-2-12 (second supplement), D.T.E. 01-78. According to the terms of the contract, not only were the Companies obligated to purchase the supply from Constellation at specific prices, they also were required to sell all of their purchased power agreement ("PPA") entitlements to Constellation for specified prices. The significant difference between the higher cost/kWh for standard offer requirements and the price for the PPA sales leads to the question of whether the contract provided the least cost service to the Companies' customers. The Companies have not provided any documentation regarding these transactions. The Department should investigate whether the procurement was in the customers' best interests and resulted in least cost rates.

¹ The Standard Offer rate increase is pursuant to the schedule approved by the Department in DPU/DTE 97-111.

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In comments filed in the Massachusetts Electric Company's reconciliation docket, DTE 02-79, the Attorney General noted that MassElectric had included costs related to the settlement of a class action suit concerning the mis-classification of standard offer customers in default service. The Attorney General understands that NSTAR was also involved in a class action suit concerning this issue. Although the Companies have not indicated that there are any costs related to the mis-classification of standard offer customers in this filing, the Department should determine whether the Companies have included such costs in the reconciliation filings and investigate the propriety of the recovery of these costs.

In last year's reconciliation proceeding, D.T.E. 01-78, the Department approved a Settlement Agreement between the Attorney General and NSTAR which deferred the issue of whether transmission revenues received in wholesale transactions have been properly accounted for in the computation of the retail revenue requirement for Local Network Service (Exh. BEC-BRK-3 (Supp)). The Attorney General continues to be concerned regarding increasing transmission costs. As part of this proceeding, the Department should investigate whether retail transmission rates are appropriately and accurately determined.

“[T]he Department must ensure that the proposed reconciliations are consistent with or substantially comply with the Electric Utility restructuring Act, Chapter 164 of the Acts of 1997 (“Act”) the company's approved restructuring plan, applicable law, and Department precedent.” *Boston Edison Company*, D.T.E. 98-111, p. 4 (October 19, 1999). Consistent with Department precedent, the Attorney General requests that the Department initiate a formal adjudicatory hearing process concerning the Companies' proposed reconciliations. *See Boston Edison Company*, D.T.E. 98-111 (December 31, 1998); *Boston Edison Company*, D.T.E. 99-107 (January 4, 2000).

Sincerely,

Joseph W. Rogers
Assistant Attorney General

cc: Robert N. Werlin, Esq.
Caroline O'Brien, Hearing Officer
Paul Afonso, General Counsel

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Service Lists, D.T.E. 01-78 and D.T.E. 01-79